

Republic of the Philippines
HOUSE OF REPRESENTATIVES
Quezon City, Metro Manila

TWENTIETH CONGRESS
First Regular Session

HOUSE BILL NO. **6980**



Introduced by **REP. NATHANIEL “Atty. Nat” M. ODUCAO**

EXPLANATORY NOTE

Credit cards and loans are essential tools that allow Filipino households and businesses to meet daily needs, manage cash flow, and invest in productive activities. When used responsibly and regulated fairly, credit supports economic growth and financial inclusion. However, recent data and experience show that many borrowers are burdened not by the amount they borrowed, but by excessive penalties, surcharges, and collection fees that cause debts to grow beyond reasonable limits.

As of the first quarter of 2025, total household and consumer loans in the Philippines reached approximately ₱3.18 trillion, representing 11.7 percent of gross domestic product (GDP) and growing by more than 18 percent year on year. At the same time, credit card receivables exceeded ₱560 billion, while salary-based and short-term loans posted growth rates of more than 60 percent. Meanwhile, surveys indicate that more than six out of ten Filipino households struggle to balance daily expenses, debt payments, and savings, particularly amid rising prices and economic uncertainty.

Despite these figures, existing regulations provide uneven protection to borrowers. Bangko Sentral ng Pilipinas (BSP) Circular No. 1133 already imposes a 100 percent total cost cap and a 15 percent monthly effective interest rate ceiling. Nevertheless, these safeguards apply only to small loans of ₱10,000 or less with short tenors. As a result, credit cards, larger personal loans, business loans, and most bank-issued credit products remain outside comprehensive cost limits.

Because of this regulatory gap, many borrowers are exposed to compounding interest, multiple penalty charges, and collection fees that cause obligations to increase to two or even three times the original loan amount. In practice, loan computations show that a loan of ₱50,000 can grow to ₱120,000 to ₱150,000 within two years due solely to accumulated interest, penalties, and collection fees. Consequently, this phenomenon has become especially harmful to small entrepreneurs who borrow for working capital.

Instead of recovering and growing their businesses, many small business owners are forced to divert income to debt servicing. As a result, business failures increase, employment opportunities decline, and overall economic productivity suffers. In turn, this creates a cycle of default and over-indebtedness that affects not only individual borrowers but also the broader economy.

The judiciary has long recognized these harms. The Supreme Court has repeatedly declared interest rates ranging from 36 percent to more than 70 percent per annum as excessive, iniquitous, and unconscionable. Accordingly, the Court has consistently reduced obligations when debts

¹ Bangko Sentral Ng Pilipinas (2025) Ceiling/s on Interest Rates and Other Fees Charged by Lending Companies (LCs), Financing Companies (FCs), and their Online Lending Platforms (OLPs). Available at: <https://www.bsp.gov.ph/Regulations/Issuances/2021/1133.pdf>

ballooned far beyond the original principal. These rulings affirm that freedom of contract is not absolute and must yield to public policy, fairness, and equity.

Similarly, international experience supports the need for legislative action. More than seventy-six countries worldwide, including several within the ASEAN region, impose limits on interest rates or total credit costs. In many cases, these limits prevent abusive lending practices while preserving access to credit, particularly when all fees and penalties are included in the computation.

In light of these realities, this bill seeks to establish clear, fair, and uniform rules governing penalties, surcharges, and the total cost of credit for all credit cards and loans, regardless of amount or lender. Specifically, it expands proven consumer protections already applied to small loans and codifies standards long recognized by the courts. Furthermore, it strengthens disclosure requirements and provides effective remedies for borrowers subjected to unconscionable charges.

Ultimately, this measure is not intended to restrict legitimate lending. Rather, it aims to promote fairness, transparency, and responsible credit practices. By ensuring that borrowers are never required to pay more than reasonable limits, the bill helps protect Filipino families, sustain small businesses, and promote a stable and equitable financial system.

In view of the foregoing, the immediate passage of this bill is earnestly sought

A handwritten signature in black ink, appearing to read 'N. Oducado', with a small blue circular stamp or mark near the end of the signature.

REP. NATHANIEL “ATTY. NAT” M. ODOCADO
1Tahanan Party List

Republic of the Philippines
HOUSE OF REPRESENTATIVES
Quezon City, Metro Manila

TWENTIETH CONGRESS
First Regular Session

HOUSE BILL NO. **6980**

Introduced by **REP. NATHANIEL “ATTY. NAT” M. ODUCAO**

**AN ACT REGULATING PENALTIES AND SURCHARGES ON CREDIT CARDS
AND LOANS, PROVIDING GUIDELINES FOR THEIR IMPLEMENTATION, AND
FOR OTHER PURPOSES**

Be it enacted by the Senate and House of Representatives of the Philippines in Congress assembled:

1 **SECTION 1. *Short Title.*** – This Act shall be known as the “*Credit Cards and Loans*
2 *Penalties and Surcharges Regulation Act.*”

3 **SEC. 2. *Declaration of Policy.*** – It is the policy of the State to protect consumers from
4 unconscionable and abusive financial practices, particularly the imposition of excessive penalties,
5 surcharges, and collection fees on credit cards and loans. The State recognizes the economic and
6 social harm caused by debt spiraling, especially to households and small businesses. In line with
7 the principles of consumer protection, the State affirms the need for a transparent, fair, and
8 equitable credit environment that ensures consumers are not exploited by predatory lending
9 practices.

10 The State further adheres to the principles of good faith and fair dealing in all credit
11 transactions, ensuring that both parties to a contract act with honesty, fairness, and mutual respect.
12 All financial institutions must, therefore, conduct their business in a manner that does not place
13 undue burdens on borrowers.

14 The State recognizes the need for regulation of the total cost of credit, including penalties,
15 interest rates, and surcharges, to ensure that such costs are reasonable and proportional to the actual
16 costs incurred in lending. The State shall promote responsible borrowing and lending and act in
17 accordance with the principles of public policy and social justice, which seek to safeguard
18 consumers and promote economic equity.

19 **SEC. 3. *Definition of Terms.*** – For purposes of this Act:

- 20 1. *Credit card* - refers to a card issued by a bank or financial institution enabling the
21 cardholder to borrow funds for purchases or cash advances under agreed terms.

2. *Loan* - refers to any sum of money lent for personal, business, or other purposes, including salary loans, microfinance, and other forms of credit.
3. *Penalty* - refers to any fee imposed for late or missed payments.
4. *Surcharge* - refers to penalty-type charges imposed as a consequence of default or delay in payment, and shall not include reasonable and duly disclosed service, processing, or administrative fees charged at the inception of the credit agreement.
5. *Collection fee* - refers to any fee charged to recover delinquent accounts.
6. *Total cost* - refers to the sum of principal, interest, fees, penalties, surcharges, and other charges associated with the credit facility.
7. *Effective interest rate (EIR)* - refers to the total cost of credit per month, including all fees, surcharges, and penalties, expressed as a percentage of the principal.

SEC. 4. Scope and Coverage - This Act shall apply to all credit card issuers, banks, financing companies, lending institutions, and online lending platforms operating in the Philippines. It shall cover all forms of credit, including credit cards, personal loans, business loans, microfinance loans, and other similar instruments.

The provisions of this Act shall apply to credit agreements entered after the effectivity of this Act.

For credit agreements existing at the time of effectivity, only interest, penalties, surcharges, and collection fees accruing after such effectivity shall be subject to the limitations and protections provided herein.

In line with the principle of consumer protection, this Act aims to establish clear guidelines that protect borrowers from arbitrary and excessive charges across all credit products.

SEC. 5. Regulation of Penalties and Surcharges. - All penalties and surcharges imposed on credit cards and loans shall be reasonable, transparent, and proportionate to the actual costs incurred by the lender.

Penalties for late or missed payments shall not exceed such maximum rates as may be prescribed by the Bangko Sentral ng Pilipinas (BSP), which in no case shall exceed five percent (5%) per month of the outstanding balance.

Surcharges under this Act shall refer only to penalty-type charges arising from default or delay and shall not include reasonable, duly disclosed service or processing fees charged at the inception of the credit agreement.

Multiple layers of penalties, surcharges, and fees that result in the unjust multiplication of debt beyond reasonable limits are hereby prohibited. Collection fees shall be limited to actual and necessary recovery costs and must be fully disclosed to the borrower.

1 These regulations are grounded in the principles of good faith and fair dealing, ensuring
2 that borrowers are treated fairly and that lenders cannot impose unreasonable charges that place
3 borrowers at risk of unjust enrichment.

4 **SEC. 6. Total Cost Cap.** - The total cost of any credit card or loan, including principal,
5 interest, penalties, surcharges, and collection fees, shall not exceed such maximum percentage of
6 the principal amount borrowed as may be prescribed by the Bangko Sentral ng Pilipinas (BSP),
7 which in no case shall exceed one hundred percent (100%) of the principal amount borrowed. This
8 provision ensures that the total cost of credit remains proportional to the principal amount, in
9 accordance with the statutory regulation of interest rates and fees to prevent borrowers from being
10 burdened by excessive debt.

11 **SEC. 7. Maximum Effective Interest Rate.** - The maximum effective interest rate (EIR)
12 that may be charged on any credit card or loan, inclusive of all interest, fees, penalties, and
13 surcharges, shall be subject to such ceilings as may be prescribed by the Bangko Sentral ng Pilipinas
14 (BSP), which in no case shall exceed fifteen percent (15%) per month.

15 Nothing in this Act shall be construed to prevent the BSP or the courts from imposing lower
16 interest rate limits or reducing rates that are found to be excessive, iniquitous, or unconscionable
17 under existing laws and jurisprudence.

18 **SEC. 8. Disclosure Requirements.** - All lenders must clearly and prominently disclose the
19 total cost of credit, including principal, interest, penalties, surcharges, and collection fees, before
20 entering into any agreement. Borrowers must be provided with accurate statements of account
21 reflecting all payments, charges, and balances. All terms must be presented in a manner
22 understandable to the average consumer to prevent misleading practices.

23 These disclosure requirements are an essential aspect of consumer protection, ensuring that
24 borrowers are fully aware of the terms and conditions before entering into a credit agreement.

25 **SEC. 9. Remedies and Enforcement.** - Any borrower aggrieved by the imposition of
26 excessive or unconscionable interest, penalties, surcharges, or fees may file a complaint with the
27 Bangko Sentral ng Pilipinas (BSP) for administrative relief, without prejudice to the filing of an
28 appropriate action before the courts.

29 Agreements or charges found to violate the limitations provided under this Act shall be
30 subject to recalculation, reduction, or adjustment to conform with the applicable caps.

31 The BSP, in coordination with the Department of Trade and Industry (DTI), shall issue
32 rules and regulations for monitoring compliance, investigating violations, and enforcing
33 administrative sanctions under this Act.

34 This section ensures that borrowers have the legal recourse necessary to challenge unfair
35 or unlawful credit practices, in line with the principles of justice and due process.

36 **SEC. 10. Penalties for Violations.** - Any person or institution violating this Act shall be
37 subject to:

- 38 1. Administrative fines of up to ₱500,000 per violation;
- 39 2. Suspension or revocation of license to operate; and
- 40 3. Civil liability for repayment of excess charges collected.

1 Repeat or egregious violators may also face criminal liability under applicable laws,
2 including estafa and unjust enrichment provisions.

3 These penalties are designed to act as strong deterrents against the violation of consumer
4 rights and unfair practices, ensuring that financial institutions are held accountable for their actions.

5 Nothing herein shall preclude the filing of appropriate civil or criminal actions under
6 existing laws when warranted by the facts.

7 **SEC. 11. *Implementing Rules and Regulations.*** - The BSP, in coordination with the DTI
8 and other relevant government agencies, shall promulgate the necessary implementing rules and
9 regulations within ninety (90) days from the effectivity of this Act to ensure compliance and
10 effective enforcement.

11 **SEC. 12. *Separability Clause.*** - If any provision of this Act is declared invalid or
12 unconstitutional, the remaining provisions shall remain in full force and effect.

13 **Sec. 13. *Repealing Clause.*** - All laws, regulations, or issuances inconsistent with this Act
14 are hereby repealed or modified accordingly, including provisions of BSP Circular No. 1133 and
15 Republic Act No. 10870 that conflict with the caps and limits established herein.

16 **SEC. 14. *Effectivity.*** - This Act shall take effect fifteen (15) days after its publication in
17 the *Official Gazette* or in at least two (2) newspapers of general circulation.

18 *Approved,*